

Message Text

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E.O. 11652: N/A

TAGS: EFIN, GR

SUBJECT: MONETARY POLICY: LIBERALIZATION CREDIT REGULATIONS

REF: (A) ATHENS 6182; (B) ATHENS 5836

1. GOVERNOR OF BANK OF GREECE (BOG) PAPALIGOURAS ANNOUNCED SEPTEMBER 4, A FURTHER RELAXATION OF COMMERCIAL BANK CREDIT RESTRICTIONS DUE TO REDUCED LIQUIDITY COMMERCIAL BANKING SYSTEM (SEE REF B). A SUMMARY OF THE NEW MEASURES FOLLOWS:

(1) PERCENTAGE OF PRIVATE SIGHT AND RESTRICTED DEPOSITS WHICH MUST BE DEPOSITED WITH BOG AS NON-INTEREST BEARING RESERVES REDUCED FROM 40 PERCENT TO 5 PERCENT.

(2) RESERVE REQUIREMENT ON SAVINGS BANK DEPOSITS REDUCED FROM 6 PERCENT TO ONLY 0.5 PERCENT, WITH AN INTEREST RATE OF 7.5 PERCENT INSTEAD OF PREVIOUS RATE OF 5.5 PERCENT.

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(3) THE BOG REDISCOUNT RATE FOR BILLS PRESENTED BY COMMERCIAL

BANKS IS REDUCED TEMPORARILY FROM 11 PERCENT TO 8 PERCENT.

(4) COMMERCIAL BANKS WILL BE ALLOWED TO DRAW FUNDS FROM THEIR REQUIRED RESERVES IN BOG AT AN INTEREST RATE OF 9 PERCENT, PROVIDED SUCH MEASURE NECESSARY AND GRANTING OF CREDITS IN CONFORMITY WITH CURRENT REGULATIONS.

(5) PAPALIGOURAS REFERRED TO GOG'S INTENTION TO REFORM SYSTEM FOR AGRICULTURAL FINANCING AND TO READJUST THE VARIOUS PREFERENTIAL INTEREST RATES WHICH EXIST TO MAKE TRANSACTIONS IN THESE FIELDS MORE ATTRACTIVE TO BANKS. (NOTE: ON CERTAIN TYPES OF PREFERENTIAL LOANS, P.EX. FOR EXPORTS OR LONG TERM INDUSTRIAL LOANS, THE PROFIT MARGIN FOR BANKS IS ALMOST NON-EXISTENT).

(6) COMMENT: IT IS ESTIMATED THAT THESE MEASURES WILL PROVIDE THE BANKING COMMUNITY WITH AN ADDITIONAL 6 BILLION DRACHMAS (\$200 MILLION) FOR CREDIT PURPOSES. GOG HAS RESOLVED TO FOLLOW AN EXPANSIONARY MONETARY POLICY IN HOPES OF REVIVIFYING AN ECONOMY STALLED BY THE PREVIOUS GOVERNMENT'S SINGLEMINDED APPLICATION OF ANTI-INFLATIONARY MEASURES AND BY THE CONSEQUENCES OF THE CYPRUS UPHEAVAL. FURTHER LIBERALIZATION OF CREDIT RESTRICTIONS ON TOP OF TREMENDOUS INCREASE IN CURRENCY IN CIRCULATION (SEE REF A) CLEARLY RISKS RESTIMULATION OF INFLATIONARY PRESSURES. GOG SEEMS READY TO GAMBLE IT CAN CONTROL PERNICIOUS SIDE EFFECTS OF POLICIES DESIGNED TO GET THE ECONOMY MOVING AGAIN.

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